

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON NDWEDWE MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Ndwedwe Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of GRAP 1: *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ndwedwe Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ndwedwe Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Restatement of corresponding figures**

10. As disclosed in note 36 to the financial statements, the corresponding figures for the year ended 30 June 2009 have been restated as a result of the change in the accounting framework to SA Standards of GRAP and errors discovered during the audit for the year ended 30 June 2010.

### **Irregular expenditure**

11. As disclosed in note 40 to the financial statements, irregular expenditure amounting to R394 236 was incurred, as a result of payments made to suppliers without three written quotations and deviations not approved which contravened the Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005)(Municipal SCM Regulations).

### **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: Municipal Finance Management Act, Local Government: Municipal Supply Chain Management Regulations (Municipal SCM Regulations) and the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), and financial management (internal control).

### **Predetermined objectives**

15. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

## **Non-compliance with regulatory and reporting requirements**

### **Local Government: Municipal Systems Act of South Africa**

#### **IDP does not include targets and key performance indicators (KPI)**

16. Contrary to sections 26(i) and 41(1)(b) of the MSA, read with regulations 12, of the Local Government: Municipal Systems Regulations the municipality's reviewed Integrated Development Plan (IDP) did not include the annual performance targets.
17. Contrary to sections 43(2) of the MSA, read with regulation 10, of the Local Government: Municipal Systems Regulations the KPI's set by the municipality in the IDP did not include the general KPIs.

#### **Usefulness of information**

18. The following criteria were used to assess the usefulness of the planned and reported performance:
  - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved annual integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
  - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
  - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relates to the above criteria:

#### **Planned and reported performance targets not specific measurable and time bound**

19. For the infrastructure development and service delivery programmes the planned and reported targets were not:
  - specific in clearly identifying the nature and the required level of performance;
  - measurable in identifying the required performance; and
  - time bound in specifying the time period or deadline for delivery.

#### **Planned and reported indicators/measures not well defined**

20. For the infrastructure development and service delivery programmes the planned and reported indicators/measures were not clear, with an unambiguous definition to allow for data to be collected consistently.

#### **Planned and reported indicators/measures not verifiable**

21. For the infrastructure development and service delivery programmes the planned and reported indicators/measures were not verifiable, as it was not possible to adequately validate the processes and systems that produce the indicator.

### **Changes to planned performance information not approved**

22. The municipality reported on irrelevant objectives, indicators and targets in addition to, those per the organizational score card. These additional objectives, indicators and targets were not approved subsequent to the strategic planning process.

### **Reliability of information**

23. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation.
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

### **Incomplete reporting on all predetermined indicators and targets**

24. The actual achievements with regard to the planned indicators and targets specified in the organisational scorecard for the year under review, for the infrastructure development and service delivery programmes audited were not measured and reported in the annual performance report submitted for audit purposes.

### **Compliance with laws and regulations**

#### **Local Government: Municipal Finance Management Act of South Africa**

25. Contrary to section 122(1)(a) of the MFMA, the municipality did not prepare financial statements which fairly presented the results of its operations as at 30 June 2010, as material corrections were made to rates income, accounts receivable, fixed assets, depreciation, accumulated depreciation and cash and cash equivalents.

### **Municipal Supply SCM Regulations**

#### **Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure.**

26. Contrary to Municipal SCM Regulation 18(b), price quotations were not done on a rotational basis thus ensuring that ongoing competition is promoted and that fraud is prevented.
27. Contrary to Municipal SCM Regulations 17(1)(c), goods and services of a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations and the deviation was not approved by the CFO or his delegate.

## **Division of Revenue Act of South Africa**

### **Approval for rollover of unspent conditional grants not requested**

28. Contrary to section 31 of DoRA, the municipality did not request for approval of all unspent conditional grants and did not revert all unspent conditional grants to the National Revenue Fund at the end of the municipal financial year.

### **Internal control**

29. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and Municipal SCM Regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
30. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

### **Leadership**

31. The accounting officer has not exercised oversight responsibility over compliance with MSA, reporting on predetermined objectives and Municipal SCM Regulations.

### **Financial and performance management**

32. The finance management team has not performed adequate reviews of the assumptions supporting the estimates recorded in the financial statements, to ensure that they are free from material misstatement.
33. The supply chain management division has not implemented an effective internal monitoring system to ensure that all Municipal SCM Regulations are being followed.
34. The accounting officer did not design adequate systems and maintain supporting evidence to ensure that reported predetermined objectives are accurate and complete.

### **Governance**

35. The internal audit and performance audit committee has not performed adequate reviews of performance information.

Pietermaritzburg

30 November 2010



**AUDITOR - GENERAL  
SOUTH AFRICA**

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